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financiallyspeaking

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Economic outlook

Global economy

The countries that participate in the OECD include the USA, Australia, France, Germany and the UK amongst other developed economies. There are economic indicators for these countries that are designed to show us things such as the likely path of economic growth.

The Organisation for Economic Co-operation and Development (OECD) Composite Leading Indicator is one such measure.

Pleasingly, this indicator has returned to the high levels seen before the COVID-19 pandemic. It rose to 99.4 in December 2020, up from 98.9 in September.

Other leading indicators are also pointing towards continued economic recovery in the December quarter globally.

Growth expectations were further supported by:

- A Democrat win in the US election with President Joe Biden looking likely to embark on more government spending in addition to a December 2020 bill that will provide further support for households and local and state governments.
- Vaccine approvals and the rollout across much of the world. While it is still early days, further progress on distribution should curb the worst of the COVID-19 pandemic and see an earlier return to a pre-COVID-19 world.

In this issue

LeenaneTempleton
wealth management

Leenane Templeton Wealth Management Pty Ltd
484 Hunter Street
Newcastle NSW 2300
Tel (02) 4926 2300 Fax (02) 4926 2533
info@leenanetempleton.com.au

Economic outlook

continued

- A final deal between the UK and EU ended concerns of a disruptive UK exit from the EU that would have further weakened the region economically.
- In the short term, rising COVID-19 cases are continuing to drag on both the health and economic situation across the world.
- The USA and Europe are among the worst-hit with a more infectious strain in the UK making the situation worse.
- Investors have been willing to look past this in anticipation that vaccinations will put the worst of the pandemic and its impacts behind us in 2021.

Australia

The bounce back in economic activity following the end of Victoria's lockdown continued during the December quarter.

Small clusters of COVID-19 outbreaks in Sydney and Brisbane disrupted inter-state travel with borders closed once again in December and throughout the Christmas holiday. Measures taken to counteract these have not had a material effect on the economy to-date. However, momentum remains positive into 2021.

We saw continued strength in jobs growth with the unemployment rate falling to 6.8% in November. Job vacancies on online sites such as Seek are now exceeding pre-COVID-19 levels suggesting that jobs recovery will continue. Risks affecting the growth outlook for the economy include the ending of the JobKeeper and JobSeeker initiatives in March 2021 and tensions between China and Australian exporters.

Shares

The Australian share market performed strongly with a 13.6% rise in the benchmark for the S&P/ASX 200 Price Index. At a sector level, this benchmark was driven higher by the financials sector (banks and insurers) (up 26.2%) and the energy sector (up 21.8%).

The performance of deferred loans was better than expected for the major banks which supported the financials sector. Also, the anticipation of the COVID-19 vaccine rollout and the Australian Prudential Regulation Authority (APRA) approving the resumption of dividend payments for banks and insurers provided further tailwind for the sector.

Oil prices surged due to the anticipation of economic recovery which supported the strong rise in energy stocks.

A similar situation occurred overseas where sectors that had performed poorly due to the COVID-19 pandemic saw surging investor support in anticipation of stronger global growth.

Fixed income and currencies

Bond prices fell, driving bond yields higher both here and overseas over the December quarter. Anticipation of a global recovery saw investors sell down bond holdings and seek riskier assets. Riskier, low grade corporate bonds saw strong performance as a result.

A similar story played out in currency markets. Countries with exposure to global growth through their exports such as Australia and Japan rose further while the US Dollar continued to falter as investors bet against it, in favour of 'pro growth' currencies like the Australian dollar and Japanese Yen.

Source: IOOF Research

What financial mistakes have you made?

Have you made a big financial mistake in the past? One that cost you a lot of time and money to fix?

Financial stress can be a major trigger for a lot of people, it is a big burden to carry around, but not one you need to carry alone. Speaking to a professional Financial Adviser can set your mind at ease once you have a plan in place and a financial goal to build towards.

Financial stress

In a report conducted by ME Bank in 2018, they found that many Australian households struggled to afford the basics:

- 17% of households could not pay utilities on time
- 19% surveyed had turned to family or friends for help
- 15% surveyed had resorted to selling items to buy necessities
- 45% of households were digging into more than 30% of their disposable income to pay off the mortgage.

The value of financial advice can take many forms. It could be the knowledge a professional is looking at your situation objectively, the peace of mind you get when you have a plan in place, or it could be the financial benefits you gain.

A study by CoreData for Fidelity in 2019 revealed that 88.5% of Australians receiving advice believe it gave them greater peace of mind, financially, and 86.2% of Australians receiving advice believe it gave them greater control over their financial situation.

Research by the Financial Services Council showed that people who received financial advice were almost $100,000 better off at retirement. That's a big financial gain achieved by working with someone who provided advice and guidance around a retirement goal.

Financial advisers are required to complete 40 hours of Continuing Professional Development each year to remain qualified and compliant – ongoing learning and development is a huge part of a Financial Advisers' value to clients! As important as paying the electricity bill and outings with the grandkids.

Many Financial Advisers will often tell you that it is not their clients with the highest income that are the wealthiest. The clients who get advice early in their life, work at it, and take a sensible approach are usually the wealthy – and happy - ones.

Don't let a past mistake deter you from a future goal

You don't need to be wealthy or privileged to receive financial advice. It is accessible to every day Australians who are motivated to get ahead. Leave your mistake in the past and talk to an adviser about your future today.

Sources: The 'Better off with savings advice', 16 February 2011, research shows that a 30 year old would save an additional $91,000, a 45 year old would save an additional $80,000 and a 60 year old would save $29,000 more than those without a financial adviser.

https://www.fidelity.com.au/insights/investment-articles/the-value-of-advice/

https://www.fasea.gov.au/continuing-professional-development

https://www.abc.net.au/news/2018-08-06/tipping-point-as-more-households-dip-into-savings/10078724

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What a nutritionist, a fund manager and a balanced diet have in common

Normally you wouldn't draw many similarities between a nutritionist, a balanced diet and a fund manager, but we have some food for thought.

A balanced diet has a variety of food groups represented, each providing different nutritional benefits. This will generally include some protein, some carbohydrates and some healthy fats. The combination is designed to keep you healthy and in the right proportions and it can help reduce your chances of devastating illnesses such as heart disease or stroke.

How is this similar to a multi-asset fund? Instead of different food groups, a multi-asset fund is made up of a variety of different asset classes, usually with the aim of producing returns at a relatively lower level of risk. Typically, you'll have some shares, some bonds, some cash and some alternatives. Alternatives are investments like real estate or infrastructure, areas which self-directed investors often don't consider or can't easily invest in by themselves.

How a multi-asset fund could keep your portfolio "healthy"

Each asset class can bring particular attributes to your portfolio. Share holdings (or equities) are usually considered an opportunity for growth but they can be highly volatile (and higher risk), for example.

Bonds and alternative assets are generally considered to offer more stable but lower returns than other asset classes such as shares.

Using a combination of a range of different asset classes is how, through a multi-asset approach, you could achieve a smoother risk and return profile – something which may be attractive for investors in times of market volatility.

The benefits of diversification – or not putting all your eggs in one basket

Just like you can't rely on one food group to provide all the nutrients your body requires, depending on a single asset class to meet your investment needs can be a risky strategy due to the lack of diversification.

It's the same as putting all your eggs in one basket, something you've no doubt been cautioned against before.

A multi-asset fund may also be able to offer investors access to different asset classes or different investment styles in various regions, providing further diversification benefits.

Active asset allocation – the "ready-made" option relying on experts to meet specific objectives

Deciding where and when to invest your money with so much choice available can be complicated. Thinking back to a balanced diet, it can be hard for some people to make healthy food choices, which is why they may require help from an expert like a nutritionist. Using a managed fund is a similar concept. You can outsource investment decisions to a fund manager, whose job it is to decide how to allocate between asset classes and regions to give the portfolio the best chance of achieving its objectives.

It's a "ready-made" option that you can choose based on your individual investment needs.

Importantly, the fund manager can change the split between asset classes to take advantage of changing market environments. If he or she believes a different allocation will enhance the potential return of a portfolio or avoid unnecessary risk, they can adjust the portfolio as necessary.

Because different asset classes perform differently during different market conditions, the aim is to create a portfolio that benefits when markets are doing well and provides you with some protection when markets aren't doing so well.

The portfolio will therefore likely look very different during times of market optimism and times of stress.

The fund manager can try to capture returns during times of optimism and shift positions to diversify and reduce risk to minimise losses in times of stress.

Choosing the right option for you

While multi-asset funds are generally designed to achieve attractive risk-adjusted returns, it is important to remember that lower risk does not mean risk free.

The value of investments and the income from them may go down as well as up. As an investor you may not get back the amounts originally invested and there is no guarantee that investment objectives will be achieved.

Speak to your Financial Adviser to see if this investment option might be right for you.

Source: Schroders

Three trends driving real estate investments in a post-pandemic economy

Office real estate is undergoing a fundamental shift, while COVID-19 has accelerated a number of global real estate investment trends, including the continued growth of e-commerce and falling home ownership.

However, new trends have also emerged, in particular, the decentralisation of work. Since the pandemic proved the viability of remote working, we are seeing a shift from dense urban to more city-fringe and suburban locations. It's part of a new emerging paradigm of living, working and playing locally.

A tale of two cities: fringe vs centre

We believe the office sector will experience a bifurcation between heavily disrupted sky rise office towers, in favour of modern "A" grade city fringe and suburban office buildings.

Serviced-based businesses are well-suited to the adoption of remote working practices, and this brings into question the need for high-rise office space which tends to be expensive, inflexible, congested and inefficient. By contrast, high-quality, low-rise suburban office buildings often have larger and more flexible floor plates and, in many instances, the difference in rent can be as high as 50%.

As a result, we believe these traditional CBD buildings will be heavily disrupted, experiencing higher natural levels of vacancy and falling market rents and valuations. Concurrently, low-rise, city fringe and suburban offices will see increased demand.

Until now, traditional professional services such as finance, insurance, accounting and legal, have been using "old world" work practices. Whereas the burgeoning technology, media and IT sectors have been defining the "new life" trends of a more decentralised workplace. However, we believe there will be greater convergence between the new and old sectors going forward.

E-tailers creating tailwinds

Another trend we have observed is that while physical retail assets are under pressure, e-commerce is creating supportive conditions for the logistics sector.

Unprecedented levels of price transparency have changed the game for retailers, who can only compete on price and availability. Wholesalers, omni-channel retailers and e-tailers are investing very large amounts of money into their supply chains, and the total capital inflow is immense.

The key for them is to efficiently manage inventory: who can get the goods from the manufacturer or wholesaler to the customer door or store front the fastest? This requires very modern logistical warehousing. New facilities, in countries such as Japan, are being purpose-built up to five levels high, with high-tech robotic systems to move goods around, making modern logistical centres very valuable.

Residential rentals: reinvented

Another strong thematic in the current market is residential-for-rent, including apartments and detached housing as well as manufactured housing.

When there is economic expansion, these assets experience growing cash flows as household finances improve and rental affordability increases. Then, during economic slowdowns, they continue to provide stable cash flows as the desire and ability to finance home ownership deteriorates.

Regardless of short-term conditions, however, we see the fall in home ownership as a long-term trend. Younger generations don't always value home ownership and are attracted to purpose-built apartments with high amenity. The affordability and offering can be very compelling versus home ownership.

A positive outlook for real estate

Overall, cash flows for REITs have remained fairly stable over the pandemic, and the long-term outlook for the sector is positive.

Rent collections have all remained well above +90% levels this year for logistical centres, office buildings, apartments and detached housing, data centres, self-storage centres and health care assets such as hospitals and medical office buildings. The notable exception is shopping malls, which have been materially impacted.

In the main, real estate is set to be a material beneficiary from the expected reallocation of capital across global economies and this will create significant opportunities that will likely cross decades.

Source: First Sentier Investors (Australia)

Cyber security

Did you know that Cybercrime is one of the most prevalent threats in Australia, and the most significant threat in terms of overall volume and impact to individuals and businesses?

According to the Australian Cyber Security Centre, Australians lost over $634 million to scams in 2019.

We know cyber crime is a real threat to Australian businesses, which is why we are doing what we can to keep our data, systems and devices safe. Here are a few simple steps you can take too.

What you can expect from us

- A secure network and up-to-date devices
- Regular back-up of our data
- USERNAME P@SSWORD123 — No shared accounts or passwords
- Strong password management framework and two-factor authentication
- Password protected documents if we need to share your personal information
- A process to report and resolve any suspicious activities or issues

We want to make sure we keep your personal information safe

If you have any concerns, please get in touch with your financial adviser

What you can do To protect your Personal information

- Install anti-virus software on all your devices and regularly update the software
- Use a strong password or unique passphrase and activate two-factor authentication where possible
  iEATcake4breakfast
- Don't share your personal information or whereabouts on social media
- Never give out your personal information over the phone unless you have properly identified the caller
- Remember that we will not ask you to perform financial transactions over the phone
- Let us know if you see an email from us that you think may be a scam

Source: ACSC Annual Cyber Threat Report July 2019 to June 2020

Do you need to review your insurance?

When a family experiences financial difficulty due to loss of income when an immediate family member becomes seriously injured or ill, it's an extra stress at an already difficult, busy and emotional time. This is why appropriate insurance cover is a key consideration in any financial plan.

Some types of insurance cover can be held within your superannuation fund, and some must be standalone insurance. Holding insurance within super may allow you to fund your insurance premiums tax effectively, reducing the effective cost of your insurance premiums.

Some people also like the convenience of using their superannuation to fund their premiums rather than affecting their own cashflow. However, you need to remember that this will reduce your superannuation benefit and consider how this impacts your retirement plan, and overall financial plan.

Other considerations

Some insurance within super will expire when you turn 65 or 70, depending on the cover.

You don't want to be caught out if you are close to this age so it is sensible to review your insurance cover regularly with your financial adviser who can let you know when the plan needs to change.

What super can be held within super?

Not all types of insurance can be held within your superannuation fund. Generally, you can pay premiums for life, any occupation, total and permanent disability (TPD) and, income protection insurance through your superannuation fund.

Whilst this can be an effective way to manage your cashflow, you need to check the type of cover is appropriate for you and will provide you with enough cover for life events that you may need to claim for. You also need to be aware of any super balance and contribution requirements by legislation, to keep your insurance within super active.

Seek professional advice

A Financial Adviser can determine whether holding insurance inside superannuation is appropriate for you. They can work out what you need, what it will cost, and the most appropriate way to pay the premiums. They can set up regular review meetings with you to go through any changes in circumstances so that the plan can be tweaked accordingly.

Source: IOOF

Insurance: Get insurance whilst you're still bulletproof

Think you're bulletproof?

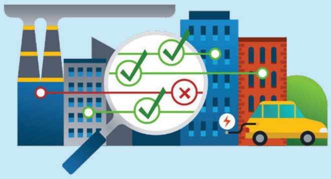
What would happen if you lost your ability to earn an income due to illness, injury or death?

Get an appropriate insurance plan in place to give you the peace of mind you can continue to enjoy your current lifestyle.

8 Sustainable investing terms to know

1 ESG

Environmental, Social and Governance — the three central factors/criteria used by responsible investors to screen and select companies and other investments for their portfolios. Sometimes E and S are substituted for 'ethical' and 'sustainable'.



2 ESG integration

The systematic and explicit identification and inclusion of material ESG factors into investment analysis and investment decisions.

3 Screening

An approach which specifically filters companies based on their involvement in either beneficial (positive) or undesirable (negative) activities.

4 Norms-based investing

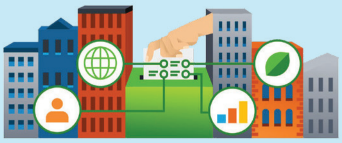
An approach that excludes investments based on not complying with international standards of conduct, such asthe UN Human Rights Declaration.

5 Values-based investing

An investment approach that excludes investments based on ethical, values-based or religious criteria, for example, gambling, alcohol, or pork.

6 Stewardship

The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries, leading to sustainable benefits for the economy, the environment and society.



7 Active ownership

A form of stewardship whereby shareholder power is used to influence corporate behaviour through direct corporate engagement, filing or co-filing shareholder proposals, and proxy voting guided by comprehensive ESG guidelines.

8 Principles for Responsible Investment

A UN-supported body regarded as the world's leading proponent of responsible investment. It has issued a set of voluntar and aspirational investment principles that all signatories must commit to.

Fidelity INTERNATIONAL

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Leenane Templeton Wealth Management Pty Ltd
484 Hunter Street
Newcastle NSW 2300
Tel (02) 4926 2300 Fax (02) 4926 2533
info@leenanetempleton.com.au

WMA-27455 (50722) 0220